

OVERVIEW

A Study on the Licensing of Private Trade, Vocational, and Technical Schools

Report No. 02-08, April 2002

Summary

Section 302A-425 of the Hawaii Revised Statutes (HRS), requires all private trade, vocational, and technical schools (also known as proprietary schools) operating in Hawaii to be licensed by the Department of Education. Proprietary schools provide post-secondary courses below the college or university degree-granting level. The department has had this responsibility since 1939.

We found that the licensing and regulating of private trade, vocational, and technical schools in Hawaii continues to be necessary. There is a definite need to protect the financial and educational interests of students who attend these types of schools. However, our review of the Department of Education's administration of the licensing program found numerous deficiencies and an overall lack of commitment to the program. These problems seriously hamper the department's ability to ensure that schools are properly licensed and the students adequately protected. For example, in our review of the license applications of 12 proprietary schools, we found that all of the schools reviewed should not have been licensed for the 2000-01 school year because they did not meet minimum licensing requirements. We also found that the department did not conduct any of its required inspections of licensed schools to ensure compliance with applicable laws and rules. The department also did not collect sufficient license fees from the schools and the payments it did receive were left unsecured in a cardboard box and undeposited for up to six months. We also found that the \$50,000 surety bond requirement for schools does nothing to protect the financial interests of its students. In fact, many of the schools we examined collected student tuitions in excess of \$200,000 per year and some collected over \$1 million per year.

Finally, a recent change in the licensing law brings into question the program's appropriate administrative placement. A 1998 amendment to Section 302A-425, HRS, added a new purpose statement that places emphasis on the protection of consumers. Recognizing the Department of Education's primary mission of educating students from grades kindergarten through 12 and the licensing program's primary purpose of consumer protection, consideration should be given to transferring the program from the Department of Education to the Department of Commerce and Consumer Affairs. The purpose of the licensing law would be aligned more appropriately with the consumer protection mission of the Department of Commerce and Consumer Affairs.

Recommendations and Response

We recommended that the State continue licensing private trade, vocational, and technical schools. We also recommended that the Department of Education make improvements in its management of the licensing program. Furthermore, we

recommended that Section 302A-101, HRS, be amended to prevent schools from circumventing licensing requirements under Section 302A-425, HRS. Finally, we recommended that the Legislature consider transferring the licensing program to the Department of Commerce and Consumer Affairs and establish a Tuition Recovery Fund to ensure that students of proprietary schools not suffer undue loss as a result of the sudden closure of a school.

In written comments on a draft of our report, the Department of Education strongly supported the findings and recommendations of our report and was especially supportive of our recommendation to transfer the licensing program to the Department of Commerce and Consumer Affairs.

The Department of Commerce and Consumer Affairs disagreed with our finding regarding the creation of a tuition recovery fund. The department noted that it would be impractical to create a fund with a small population of 51 licensed private trade, vocational, and technical schools. The department also disagreed with our finding that it has jurisdiction over proprietary schools registered with the department as a corporation or partnership. Finally, the department disagreed with our conclusion that many of the professions or vocations taught at proprietary schools have professional licensing boards that afford the department an established knowledge base and the advantage of quickly drawing upon expertise to assess curriculum, competencies, and standards.

The department did not address our conclusion that the consumer protection purpose of the licensing law is appropriate rationale for placement of the program in the agency charged with this responsibility—the Department of Commerce and Consumer Affairs.

The University of Hawaii did not have any comments to add to the study.